

United States Government Notes to the Financial Statements for the Years Ended September 30, 2004, and September 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

This *Financial Report* includes the financial status and activities of the executive branch, the legislative branch (the U.S. Senate and the U.S. House of the Representatives report on a cash basis), and the judicial branch (which also reports on a cash basis) of the Government. The judicial branch reports on a limited basis because it is not required by law to submit financial statement information to Treasury. The Appendix section of this report contains a list of significant Government entities included in the *Financial Report*, as well as examples of entities excluded. The excluded entities are not part of the *Financial Report* because they are Government sponsored enterprises, such as Fannie Mae, Freddie Mac, etc.; or their activities are not included in the Federal budget's totals, such as the Thrift Savings Fund, and the Board of Governors of the Federal Reserve System, etc.

Material intragovernmental transactions are eliminated in consolidation, except as described in Note 16—Unreconciled Transactions Affecting the Change in Net Position. The financial reporting period ends September 30 and is the same as used for the annual budget.

On November 25, 2002, the DHS Reorganization Plan was enacted. The Reorganization Plan was submitted pursuant to Section 1502 of the Department of Homeland Security Act of 2002. The majority of the assets and expenses transfers occurred in fiscal year 2003, and only small immaterial transfers have taken place in fiscal year 2004.

B. Basis of Accounting and Revenue Recognition

These financial statements were prepared using U.S. generally accepted accounting principles (GAAP), primarily based on Statements of Federal Financial Accounting Standards (SFFAS). Under these principles:

- Expenses are generally recognized when incurred except that the costs of social insurance programs including Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment are recognized only for amounts currently due and payable.
- Nonexchange (unearned) revenues, including taxes, duties, fines, and penalties, are recognized when collected and adjusted to the change in net measurable and legally collectable amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against nonexchange revenue.
- Exchange (earned) revenues are recognized when the Government provides goods and services to the public for a price. Exchange revenues include user charges such as admission to Federal parks and premiums for certain Federal insurance.

This basis of accounting used for budgetary purposes, which is primarily on a cash and obligation basis and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements. See the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

C. Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported based on the present value of the net cashflows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the direct loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees.

The subsidy expense for direct or guaranteed loans disbursed during a year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal year 1992 are valued under two different methodologies within the Government: the allowance-for-loss method and the present-value method. Under the allowance-for-loss method, the outstanding principal of direct loans is reduced by an allowance for uncollectible amounts; the liability for loan guarantees is the amount the agency estimates would more likely than not require future cash outflow to pay default claims.

Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cashflows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

D. Accounts and Taxes Receivable

Accounts receivable represents claims to cash or other assets from entities outside the Government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law.

The category taxes receivable consists primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed the amounts are owed, or a court has determined the assessments are owed. The balance sheets do not include unpaid assessments when neither taxpayers nor a court have agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible.

E. Inventories and Related Property

Inventories within the Government are valued using historical cost, net realizable value, and latest acquisition cost (see Note 6—Inventories and Related Property, Net). Historical cost methods include first-in-first-out, weighted average, and moving average. Estimated repair costs reduce the value of inventory held for repair. Excess, obsolete, and unserviceable inventories are valued at estimated net realizable value. When latest acquisition cost is used to value inventory held for sale, it is adjusted for holding gains and losses in order to approximate historical cost.

The related property portion of the inventory and related property line includes operating materials and supplies, stockpile materials, commodities, seized and monetary instruments, and forfeited property. Operating materials and supplies are valued at historical cost, latest acquisition cost, and standard price using the purchase and consumption method of accounting. Operating materials and supplies that are valued at latest acquisition cost and standard pricing are not adjusted for holding gains and losses.

F. Property, Plant, and Equipment

Property, plant, and equipment used in Government operations are carried at cost. Depreciation and amortization expense applies to property, plant, and equipment reported on the balance sheets except for land, unlimited duration land rights and construction in progress. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets.

G. Federal Employee and Veteran Benefits Payable

Federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans and post-retirement health benefits are recorded at estimated present value of future benefits, less the estimated present value of future normal cost contributions.

Normal cost is the portion of the actuarial present value of projected benefits allocated as an expense for employee services rendered in the current year. Actuarial gains and losses (and prior service cost, if any) are recognized immediately in the year they occur, without amortization.

H. Environmental and Disposal Liabilities

Environmental and disposal liabilities are recorded at the estimated current cost of removing, containing and/or disposing of hazardous waste and environmental contamination, assuming the use of current technology. Hazardous waste is a solid, liquid, or gaseous waste that, because of its quantity or concentration, presents a potential hazard to human health or the environment. Remediation consists of removal, decontamination, decommissioning, site restoration, site monitoring, closure and post-closure cost, treatment, and/or safe containment. Where technology does not exist to clean up hazardous waste, only the estimable portion of the liability, typically safe containment, is recorded.

I. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or scheduled maintenance that was delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so they continue to provide acceptable services and achieve their expected life. Maintenance excludes activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended. Deferred maintenance expenses are not accrued in the Statements of Net Cost or recognized as liabilities on the balance sheets. However, deferred maintenance information is disclosed in the Supplemental Information section of this report.

J. Contingent Liabilities

Liabilities for contingencies are recognized on the balance sheets when both:

- A past transaction or event has occurred.
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized.

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed in Note 18—Contingencies.

K. Commitments

In the normal course of business, the Government has a number of unfulfilled commitments that may require the use of its financial resources. Note 19—Commitments describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

Discussion of treaties and other international agreements entered into by the United States Government are included in the Commitments section.

L. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Stewardship Information section on Stewardship Responsibilities, and Note 20—Dedicated Collections.

M. Related Party Transactions

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depository and fiscal agent. They process Federal payments and deposits to Treasury's account and service Treasury securities. FRBs owned \$698 billion and \$654 billion of Treasury securities held by the public as of September 30, 2004, and 2003, respectively. FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled \$19.7 billion and \$21.9 billion for the years ended September 30, 2004, and 2003, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, as described in Note 14—Other Liabilities, the FRB holds certificates and special drawing rights certificates.

FRBs issue Federal Reserve notes, the circulating currency of the United States. Specific assets owned by FRBs, typically Treasury securities, collateralize these notes. Federal Reserve notes are backed by the full faith and credit of the Government.

The Government does not guarantee payment of the liabilities of Government-sponsored enterprises such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, which are privately owned. These enterprises also are excluded from the reporting entity.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30

(In billions of dollars)	2004	2003
Operating cash	31.0	50.8
Other cash	13.3	11.3
Total cash	44.3	62.1
International monetary assets	41.5	46.3
Gold	10.9	10.9
Domestic monetary assets	0.3	0.3
Total cash and other monetary assets.....	97.0	119.6

Cash

Total cash consists of:

- Operating cash of the Government representing balances from tax collections, customs duties, other revenues, Federal debt receipts, other various receipts, net of checks outstanding, and time deposits which are held in the Federal Reserve banks, foreign and domestic financial institutions, and in Treasury tax and loan accounts.
- Other cash representing the balances of petty cash and other funds held in agencies' books, such as deposits in transit, imprest funds, undeposited collections and amounts held in trust.

Throughout fiscal year 2003, the Government maintained formal arrangements with numerous financial institutions for holding time deposits known as compensating balances and depositary compensation securities. On January 23, 2004, with the passage of the "Consolidated Appropriations Act, 2004," Treasury received a permanent and indefinite appropriation to compensate the banks for services rendered. As a result, the compensating balances and depositary compensation securities established for this purpose did not exist on September 30, 2004. The September 30, 2003, balance of \$22.2 billion is included in other cash.

Operating cash and the other cash of the Government are either insured (for balances up to \$100,000) by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities pledged by financial institutions.

International Monetary Assets

International monetary assets include the U.S. reserve position in the International Monetary Fund (IMF), U.S. holdings of Special Drawing Rights (SDRs), and official reserves of foreign currency and gold.

The U.S. reserve position in the IMF reflects the reserve asset portion of the financial subscription that the United States has paid in as part of its participation in the IMF. The IMF promotes international monetary cooperation and a stable payments system to facilitate growth in the world economy. Its primary activities are surveillance of member economies, financial assistance as appropriate, and technical assistance.

Only a portion of the U.S. financial subscriptions to the IMF is made in the form of reserve assets, the remainder is provided in the form of a letter of credit from the United States to the IMF.

The balance available under the letter of credit totaled \$35 billion and \$28.9 billion for the years ended September 30, 2004, and 2003, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of \$19.4 billion and \$24.1 billion for the years ended September 30, 2004, and 2003, respectively.

SDRs are international monetary reserves issued by the IMF. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling \$12.8 billion and \$12.1 billion equivalent for the years ended September 30, 2004, and 2003, respectively.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. The SDR Act of 1968 authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled \$2.2 billion for the years ended September 30, 2004, and 2003, and are included in Note 14—Other Liabilities.

As of September 30, 2004, and 2003, other liabilities included \$7.2 billion and \$7 billion, respectively, of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations that occurred in 1970, 1971, 1972, 1979, 1980, and 1981.

Gold

Gold is valued at the statutory price of \$42.2222 per fine troy ounce. The number of fine troy ounces was 258,713,310 as of September 30, 2004, and 2003. The market value of gold on the London Fixing as of the reporting date was \$416 and \$388 per fine troy ounce for the years ended September 30, 2004, and 2003, respectively. Gold totaling \$10.9 billion for the years ending September 30, 2004, and 2003, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time. See Note 14—Other Liabilities.

Domestic Monetary Assets

Domestic monetary assets consist of liquid assets, other than cash, that are based on the U.S. dollar, including coins, silver bullion, and other coinage metals.

Note 3. Accounts Receivable, Net

Accounts receivable includes related interest receivable of \$6.2 billion and \$4.6 billion for the years ended September 30, 2004, and 2003, respectively, represents claims to cash or other assets from entities outside the Government. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection. Accounts receivable are net of an allowance for uncollectible accounts. The allowance amounts are \$16.7 billion and \$16.1 billion for the years ended September 30, 2004, and 2003, respectively.

Accounts Receivable as of September 30

(In billions of dollars)	2004	2003
Department of Defense.....	7.5	7.3
Social Security Administration	6.2	5.8
Department of Energy.....	4.0	4.4
Pension Benefit Guaranty Corporation.....	2.5	0.5
Department of Agriculture.....	2.5	1.9
Department of Health and Human Services	2.1	2.8
Department of the Interior.....	1.3	1.2
Department of Labor.....	1.1	0.8
Tennessee Valley Authority	1.0	1.0
Department of Veterans Affairs	0.9	0.9
All other departments.....	6.0	7.2
Total accounts receivable, net	<u>35.1</u>	<u>33.8</u>

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

The Government uses two methods, direct loans and loan guarantee programs, to accomplish the same goals. These goals are to promote the Nation's welfare by making direct Federal loans and guaranteeing non-Federal loans to segments of the population not served adequately by non-Federal institutions. For those unable to afford credit at the market rate, Federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-Federal financial institutions are reluctant to grant credit because of the high risk involved, Federal credit programs guarantee the payment of these non-Federal loans and absorb the cost of defaults.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees as of the fiscal yearend. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for uncollectible amounts (or present value allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of the end of this fiscal year. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, reestimates, amortizations, and writeoffs.

Direct Loans and Loan Guarantees as of September 30

	Face Value of Loans Outstanding		Long-term Cost of Loans and Guarantees Outstanding		Net Loans Receivable		Amount Guaranteed by the Government		Subsidy Expense for the Fiscal Year Ended September 30	
(In billions of dollars)	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Direct Loan Programs:										
Federal Direct Student Loans	92.1	84.5	(1.6)	(2.1)	93.7	86.6			(0.6)	4.7
Rural Utilities Service	32.4	40.1	2.7	4.1	29.7	36.0			(0.1)	0.6
Rural Housing Service	27.1	27.3	7.4	7.5	19.7	19.8			0.2	-
Federal Family Education Loans	20.0	17.7	9.3	6.9	10.7	10.8			-	-
Housing and Urban Development	13.2	7.5	3.1	-	10.1	7.5			-	-
Export-Import Bank Loans	13.2	7.8	5.5	1.2	7.7	6.6			-	-
Community Loans	7.9	9.8	1.0	5.3	6.9	4.5			-	0.2
Agricultural Credit Insurance Fund ...	7.3	4.6	0.6	0.7	6.7	3.9			(0.1)	(0.6)
U.S. Agency for International Development.....	8.8	8.5	2.7	3.2	6.1	5.3			-	-
Other Foreign Loans	9.5	3.0	4.6	0.4	4.9	2.6			(0.1)	0.3
Export Credit Guarantees	6.5	6.7	3.0	3.2	3.5	3.5			-	-
Direct Loans for Spectrum Auction Sales.....	6.5	5.1	3.8	0.7	2.7	4.4			-	0.4
All other programs	21.4	28.7	2.9	(0.9)	18.5	29.6			0.1	(0.3)
Total.....	<u>265.9</u>	<u>251.3</u>	<u>45.0</u>	<u>30.2</u>	<u>220.9</u>	<u>221.1</u>			<u>(0.6)</u>	<u>5.3</u>
Guaranteed Loan Programs:										
Federal Family Education Loans	245.3	213.0	23.3	15.4			240.5	209.0	9.0	2.5
Veterans Housing Benefit Program	207.4	213.2	4.7	4.8			64.7	67.6	0.2	(1.5)
Unsubsidized Federal Housing Administration Loans, HUD	412.4	434.0	4.0	2.1			383.6	404.4	(2.5)	2.5
Export-Import Bank Guarantees	47.5	32.9	3.1	1.8			47.5	32.9	0.3	0.3
Small Business Loans.....	67.5	53.6	2.5	2.5			56.4	43.4	0.1	2.2
Subsidized Federal Housing Administration Loans, HUD	97.3	101.2	1.2	4.1			87.8	85.6	(0.4)	0.1
Israeli Loan Guarantee Program, AID	12.3	10.8	0.8	0.7			12.3	10.8	-	-
Overseas Private Investment Corporation Credit Program	3.7	3.0	0.7	0.6			3.7	3.0	-	-
Rural Housing Service	13.6	13.8	0.4	0.4			12.2	12.4	0.1	0.1
Business and Industry Loans.....	4.2	4.1	0.3	0.3			3.1	3.0	-	-
Agriculture Credit Insurance Fund .	10.4	10.3	0.2	0.2			9.3	9.2	0.1	-
Export Credit Guarantee Programs	5.0	4.8	0.2	-			4.8	4.7	0.1	(0.1)
Health Education Assistance Loans	2.1	2.5	0.2	0.4			2.1	2.5	0.1	0.2
All other programs	8.4	10.6	1.5	1.3			8.4	9.9	0.5	0.2
Total.....	<u>1,137.1</u>	<u>1,107.8</u>	<u>43.1</u>	<u>34.6</u>			<u>936.4</u>	<u>898.4</u>	<u>7.6</u>	<u>6.5</u>

Net loans receivable includes related interest and foreclosed property, and is included in the assets section of the balance sheets.

The total subsidy expense is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for reestimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense is included in the Statements of Net Cost.

Major Loan Programs

The Department of Education has two major education loan programs. The first major education loan program, the Federal Direct Student Loan Program, established in fiscal year 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three types of loans are available to borrowers at all income levels. These loans usually mature 9 to 13 years after the student is no longer enrolled. They are unsecured. The second major education loan program, the Federal Family Education Loan Program established in fiscal year 1965, has guaranteed loan programs. Like the Federal Direct Student Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans.

USDA, Rural Utilities Service loans are for the construction and operation of electric generating plants, transmission and distribution lines, telecommunication lines, and related systems. These loans carry an average maturity of greater than 20 years and are usually secured.

The major Federal rural housing programs are funded through the Rural Housing Insurance Fund Program account. These programs include:

- Very low- and low-to-moderate-income home ownership loans and guarantees.
- Very low-income housing repair loans.
- Multifamily housing loans and guarantees.
- Domestic farm labor housing loans.
- Housing site loans.
- Credit sales of acquired property.

Loan programs are limited to rural areas that include towns, villages, and other places not part of an urban area. The majority of these loans mature in excess of 25 years and are secured by the property of the borrower.

The Department of Housing and Urban Development, Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA predominately serves borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income families, and residents of under-served areas.

The VA's Veterans Housing Benefit Program provides partial guarantee of residential mortgage loans issued to eligible veterans, reservists and service members by private lenders. This guarantee allows veterans, reservists, and service members to purchase a home without a substantial down payment.

The Export-Import Bank aids in financing and promoting U.S. exports. To accomplish its objectives, the bank's authority and resources are used to:

- Assume commercial and political risk that exporters or private institutions are unwilling or are unable to undertake.
- Overcome maturity and other limitations in private sector financing.
- Assist U.S. exports to meet foreign officially sponsored export credit competition.
- Provide leadership and guidance in export financing to the U.S. exporting and banking communities and to foreign borrowers.

Repayment terms for these loans are usually 1 to 7 years.

The U.S. Agency for International Development (USAID) provides economic assistance to selected countries in support of U.S. efforts to promote stability and security interests in strategic regions of the world.

Other loan programs include the Small Business Administration (SBA) general business loan guarantees and disaster loans; and the Farm Service Agency's farm ownership, emergency, and disaster loans.

Government-sponsored enterprises have the authority to request borrowings totaling \$10 billion, subject to the approval of the Secretary of the Treasury.

Note 5. Taxes Receivable, Net

Taxes receivable are the gross tax receivables net of allowance for doubtful accounts. The allowance for doubtful accounts is based on projections of collectibility from a statistical sample of taxes receivable.

Taxes Receivable as of September 30

(In billions of dollars)	2004	2003
Gross taxes receivable	91.4	94.4
Allowance for doubtful accounts	(70.1)	(71.5)
Taxes receivable, net	<u>21.3</u>	<u>22.9</u>

Note 6. Inventories and Related Property, Net

Inventories and Related Property as of September 30

	All			All		
	Defense	Others	Total	Defense	Others	Total
(In billions of dollars)	2004			2003		
Inventory purchased for resale	76.0	0.7	76.7	70.2	0.5	70.7
Inventory held in reserve for future sale ...	-	0.1	0.1	-	-	-
Inventory and operating material and supplies held for repair	48.1	0.3	48.4	45.9	0.4	46.3
Inventory—excess, obsolete and unserviceable	5.4	0.1	5.5	3.8	-	3.8
Operating materials and supplies held for use	127.8	4.8	132.6	117.8	4.8	122.6
Operating materials and supplies held in reserve for future use	-	0.2	0.2	5.1	0.1	5.2
Operating materials and supplies—excess, obsolete and unserviceable	3.1	-	3.1	3.7	0.1	3.8
Stockpile materials	1.5	41.2	42.7	1.8	40.0	41.8
Other related property	1.1	1.8	2.9	1.9	3.0	4.9
Total allowance for inventories and related property	(49.8)	(0.9)	(50.7)	(44.5) ¹	(1.9)	(46.4)
Total inventories and related property, net ..	<u>213.2</u>	<u>48.3</u>	<u>261.5</u>	<u>205.7</u>	<u>47.0</u>	<u>252.7</u>

¹ Restated – See Note 17.

Inventory is tangible personal property that is (1) held for sale, principally to Federal agencies, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. DOD, which accounts for nearly all of the inventory purchased for resale and future sale in the Government, generally uses the Latest Acquisition Cost (LAC) method, which is revalued for holding gains and losses.

Inventory held in reserve for future sale is inventory not readily available, or inventory that will be needed in the future.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economic to repair than to dispose of (operating materials and supplies).

Inventory—excess, obsolete, and unserviceable:

- Excess inventory is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- Obsolete inventory is that which no longer is needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory is inventory damaged beyond economic repair.

Excess, obsolete, and unserviceable inventory is reported at net realizable value.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations.

Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance that they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses LAC and Standard Price under the purchase and consumption methods of accounting and does not adjust for holding gains and losses, which does not approximate historical cost.

Operating materials and supplies—excess, obsolete, and unserviceable:

- Excess operating materials and supplies are materials that exceed the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use.
- Obsolete operating materials and supplies are materials no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable operating materials and supplies are materials damaged beyond economic repair.

DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, revalues it to a net realizable value of zero through the allowance account.

Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, and stockpile materials that are authorized to be sold. The amount reported by the DOD is stockpile materials held for sale, and the amount reported in all others is stockpile materials held in reserve, and is reported by the Department of Energy (DOE).

Other related property:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices.
- Seized monetary instruments are comprised of only monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the Government, such as real property and tangible personal property, is not included as a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.
- Other property not classified above.

Note 7. Property, Plant, and Equipment, Net

The category of property, plant, and equipment consists of tangible assets including land, buildings, structures, automated data processing software, and other assets used to provide goods and services.

Property, Plant, and Equipment as of September 30, 2004

	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
(In billions of dollars)						
Buildings, structures, and facilities.....	159.4	162.6	91.5	78.1	67.9	84.5
Furniture, fixtures, and equipment.....	1,192.4	153.2	852.1	89.3	340.3	63.9
Construction in progress	19.6	40.0	N/A	N/A	19.6	40.0
Land	10.1	16.7	N/A	N/A	10.1	16.7
Automated data processing software	6.1	5.8	3.6	2.0	2.5	3.8
Assets under capital lease	0.6	1.7	0.4	0.5	0.2	1.2
Leasehold improvements.....	0.1	3.7	0.1	2.0	-	1.7
Other property, plant, and equipment.....	0.1	8.5	-	8.3	0.1	0.2
Subtotal	<u>1,388.4</u>	<u>392.2</u>	<u>947.7</u>	<u>180.2</u>	<u>440.7</u>	<u>212.0</u>
Total property, plant, and equipment, net		1,780.6		(1,127.9)		652.7

Property, Plant, and Equipment as of September 30, 2003

	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
(In billions of dollars)						
Buildings, structures, and facilities.....	159.5	168.0	83.1	80.3	76.4	87.7
Furniture, fixtures, and equipment.....	1,163.1	152.3	825.2	82.6	337.9	69.7
Construction in progress	19.4	37.5	N/A	N/A	19.4	37.5
Land	9.7	10.1	N/A	N/A	9.7	10.1
Automated data processing software	5.0	5.2	2.6	1.5	2.4	3.7
Assets under capital lease	0.6	1.4	0.3	0.4	0.3	1.0
Leasehold improvements.....	0.2	3.4	0.1	1.7	0.1	1.7
Other property, plant, and equipment.....	0.1	0.5	-	-	0.1	0.5
Subtotal	<u>1,357.6</u>	<u>378.4</u>	<u>911.3</u>	<u>166.5</u>	<u>446.3</u>	<u>211.9</u>
Total property, plant, and equipment, net		1,736.0		(1,077.8)		658.2

Note 8. Other Assets

Other Assets as of September 30

(In billions of dollars)	2004	2003
Securities and investments:		
All other	32.5	37.7
NRRIT ¹	24.6	19.4
Advances and prepayments	27.0	26.1
Other	24.7	13.9
Total other assets	<u>108.8</u>	<u>97.1</u>

¹ For more information, see Railroad Retirement in the Stewardship Information section (page 90).

Securities and investments are presented at cost, net of unamortized premiums and discounts.

As discussed in the Stewardship Information section of this report, the NRRIT manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program, a social insurance program.

Note 9. Accounts Payable

Accounts Payable as of September 30

(In billions of dollars)	2004	2003
Department of Defense	28.4	28.4
Department of Agriculture	3.4	3.6
Department of Veterans Affairs.....	3.0	3.0
Department of Homeland Security	2.8	2.0
United States Postal Service	2.5	3.3
General Services Administration.....	2.3	2.2
Department of Justice	2.1	2.1
National Aeronautics and Space Administration.....	2.0	2.2
Agency for International Development.....	2.0	1.8
Department of Energy	1.3	3.1
Department of State	1.2	1.0
Pension Benefit Guaranty Corporation	1.2	0.4
Department of Labor	1.0	0.7
Tennessee Valley Authority	0.9	1.0
Department of Housing and Urban Development.....	0.8	1.5
All other departments.....	5.2	5.9
Total accounts payable.....	<u>60.1</u>	<u>62.2</u>

The accounts payable table includes accounts payable for goods and property ordered and received, services rendered by other than Federal employees, and accounts payable for cancelled appropriations.

Note 10. Federal Debt Securities Held by the Public and Accrued Interest

Definitions of Debt

Debt Held by the Public—Federal debt held outside the Government by individuals, corporations, State or local governments, Federal Reserve banks, and foreign governments and central banks.

Intragovernmental Debt Holdings—Federal debt held by Government trust funds, revolving funds, and special funds.

Federal Debt Securities Held by the Public and Accrued Interest

	Balance September 30, 2003	Net Change During Fiscal Year 2004	Balance September 30, 2004	Average Interest Rate 2004	Average Interest Rate 2003
(In billions of dollars)					
Treasury Securities (Public):					
Marketable securities:					
Treasury bills.....	918.2	43.3	961.5	1.6%	1.0%
Treasury notes.....	1,919.5	354.6	2,274.1	3.5%	3.8%
Treasury bonds.....	622.7	(12.3)	610.4	8.0%	7.8%
Total marketable Treasury securities.....	3,460.4	385.6	3,846.0		
Nonmarketable securities.....	463.7	(2.2)	461.5	5.1%	5.3%
Net unamortized premium/ (discounts).....	(36.8)	2.0	(34.8)		
Total Treasury securities, net (public).....	3,887.3	385.4	4,272.7		
Agency Securities:					
Tennessee Valley Authority.....	24.6	(1.3)	23.3		
All other agencies.....	1.2	(0.5)	0.7		
Total agency securities, net of unamortized premiums and discounts.....	25.8	(1.8)	24.0		
Accrued interest payable.....	31.8	0.9	32.7		
Total Federal debt securities held by the public and accrued interest.....	3,944.9	384.5	4,329.4		

Types of marketable securities:

Bills – Short-term obligations issued with a term of 1 year or less.

Notes – Medium-term obligations issued with a term of at least 1 year, but not more than 10 years.

Bonds – Long-term obligations of more than 10 years.

This table details Government borrowing to finance operations and shows marketable and nonmarketable securities at face value less net unamortized discounts including accrued interest.

Securities that represent Federal debt held by the public are issued primarily by the Treasury and include:

- Interest-bearing marketable securities (bills, notes, and bonds).
- Interest-bearing nonmarketable securities (foreign series, State and local government series, domestic series, depository compensation securities, and savings bonds).
- Non interest-bearing marketable and nonmarketable securities (matured and other).

Section 3111 of Title 31, U.S.C., authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the general fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government. There were no buyback operations in fiscal years 2004 and 2003.

As of September 30, 2004, and 2003, respectively, \$7,333.3 billion and \$6,737.6 billion of debt were subject to a statutory limit (31 U.S.C. § 3101). That limit was \$7,384 billion as of September 30, 2004, and 2003, respectively. Public Law No. 108-415, November 19, 2004, amended Title 31 of the United States Code to increase the statutory debt limit to \$8,184 billion. As of this date \$7,437.6 billion of debt were subject to the statutory limit. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of Federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the table below).

Intragovernmental debt holdings represent the portion of the gross Federal debt held as investments by Government entities. This includes major trust funds. For more information on trust funds, see Note 20—Dedicated Collections. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

Intragovernmental Debt Holdings: Federal Debt Securities Held as Investments by Government Accounts as of September 30

	Balance 2003	Net Change During Fiscal Year 2004	Balance 2004
<i>(In billions of dollars)</i>			
Social Security Administration, Federal Old-Age and Survivors Insurance	1,313.4	139.2	1,452.6
Office of Personnel Management, civil service retirement and disability	601.7	30.2	631.9
Department of Health and Human Services, Federal Hospital Insurance	251.3	13.1	264.4
Social Security Administration, Federal Disability Insurance	170.8	12.0	182.8
Department of Defense, military retirement	172.4	4.9	177.3
Federal Deposit Insurance Corporation funds	45.4	1.6	47.0
Department of Labor, unemployment	48.2	(3.0)	45.2
Department of Defense, Medicare retirement fund	18.4	17.5	35.9
Department of Energy, nuclear waste disposal	25.9	4.6	30.5
Office of Personnel Management, Employees' Life Insurance	26.8	1.3	28.1
Housing and Urban Development, Federal Housing	23.8	(0.5)	23.3
Department of Health and Human Services, Federal Supplementary Medical Insurance	24.9	(7.5)	17.4
Department of Veterans Affairs	13.7	(0.5)	13.2
Pension Benefit Guaranty Corporation Fund	12.9	0.3	13.2
Department of State, Foreign service and retirement & disability fund	12.3	0.6	12.9
Office of Personnel Management, Employees health benefits	9.0	1.7	10.7
Department of the Treasury, Exchange stabilization fund	10.5	(0.2)	10.3
Department of Transportation, Highway Trust Fund	13.6	(3.4)	10.2
Department of Transportation, Airport and Airway Trust Fund	10.5	(0.6)	9.9
All other programs and funds	53.7	1.2	54.9
Subtotal	<u>2,859.2</u>	<u>212.5</u>	<u>3,071.7</u>
Unamortized net (discounts)/premiums	(0.3)	(0.3)	(0.6)
Total intragovernmental debt holdings, net	<u>2,858.9</u>	<u>212.2</u>	<u>3,071.1</u>

Note 11. Federal Employee and Veteran Benefits Payable

The Government offers its employees life and health insurance, as well as retirement and other benefits. These benefits apply to civilian and military employees.

The Federal Government administers more than 40 pension plans. OPM administers the largest civilian plan. DOD, meanwhile, administers the largest military plan. Other significant pension plans with more than \$10 billion in accrued benefits payable include those of the Coast Guard and the Foreign Service. The changes in the accrued

post-retirement pension and health benefit liability and components of related expense for the years ended September 30, 2004, and 2003, respectively, are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

(In billions of dollars)	Civilian ¹		Military		Total ¹	
	2004	2003	2004	2003	2004	2003
Pension and accrued benefits	1,230.2	1,190.4	837.7	739.0	2,067.9	1,929.4
Post-retirement health benefits	266.1	244.4	725.3	683.0	991.4	927.4
Veterans compensation and burial benefits	N/A	N/A	924.8	954.8	924.8	954.8
Liability for other benefits	54.4	47.2	23.6	21.2	78.0	68.4
Total Federal employee and veteran benefits payable.....	<u>1,550.7</u>	<u>1,482.0</u>	<u>2,511.4</u>	<u>2,398.0</u>	<u>4,062.1</u>	<u>3,880.0</u>

¹ Does not include U.S. Tax Court and judicial branch.

Change in Actuarial Accrued Pension Liability and Components of Related Expenses

(In billions of dollars)	Civilian ¹	Military	Total ¹
Actuarial accrued pension liability as of September 30, 2003	1,190.4	739.0	1,929.4
Adjusted accrued pension liability	<u>1,190.4</u>	<u>739.0</u>	<u>1,929.4</u>
Pension Expense:			
Normal costs	25.3	13.0	38.3
Plan amendment and assumption change liability	-	81.0	81.0
Interest on liability	73.1	45.3	118.4
Actuarial (gains)/losses.....	<u>(3.7)</u>	<u>(4.0)</u>	<u>(7.7)</u>
Total pension expense	94.7	135.3	230.0
Less benefits paid	<u>54.9</u>	<u>36.6</u>	<u>91.5</u>
Actuarial accrued pension liability as of September 30, 2004	<u>1,230.2</u>	<u>837.7</u>	<u>2,067.9</u>

¹ Does not include U.S. Tax Court and judicial branch.

Significant Long-Term Assumptions Used in Determining Pension Liability and the Related Expense

(In percentages)	Civilian		Military	
	2004	2003	2004	2003
Rate of interest.....	6.25%	6.25%	6.25%	6.25%
Rate of inflation	3.25%	3.25%	3.00%	3.00% ¹
Projected salary increases	4.00%	4.00%	3.75%	3.75% ¹

¹ Revised.

Change in Actuarial Accrued Post-Retirement Health Benefits Liability and Components of Related Expenses

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 2003	244.4	683.0	927.4
Adjusted beginning post-retirement health benefits liability	244.4	683.0	927.4
Post-Retirement Health Benefits Expense:			
Normal costs.....	19.2	17.6	36.8
Interest on liability.....	-	42.9	42.9
Actuarial (gains)/losses	12.1	(5.3)	6.8
Total post-retirement health benefits expense	31.3	55.2	86.5
Less claims paid	9.6	12.9	22.5
Actuarial accrued post-retirement health benefits liability, as of September 30, 2004	266.1	725.3	991.4

Significant Long-Term Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

(In percentages)	Civilian		Military	
	2004	2003	2004	2003
Rate of interest.....	6.25%	6.25%	6.25%	6.25%
Rate of health care cost inflation.....	7.00%	7.00%	6.25%	6.25%

Separate boards of actuaries for OPM and DOD determine the actuarial assumptions used in calculating the pension liability and the post-retirement health benefit liability for the civilian and military personnel. Both boards use generally accepted actuarial methodologies. The board for OPM uses a fixed rate of inflation and projected salary increases over all years for both the pension and post-retirement health benefit liabilities. These rates are shown in the tables above. The board for DOD uses a range of rates for the inflation and the projected salary increases, with an ultimate rate for the long term. The board for DOD also uses different health care cost inflation rates for inpatient, outpatient, and prescription drugs. The long-term ultimate rate is shown in the tables above.

The long-term ultimate rate for fiscal year 2004 of 6.25 percent is shown in the tables above. For disclosure and comparison purposes, DOD's estimate of a single equivalent fixed rate of health care cost inflation for fiscal

year 2004 is 7 percent, which is an approximation of the single equivalent rate that would produce that same actuarial liability as the actual rates used.

Civilian Employees

Pensions

OPM administers the largest civilian pension plan, which covers approximately 90 percent of all Federal civilian employees. This plan includes two components of defined benefits. These are the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF).

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the general fund, and interest on investments in Treasury securities. See Note 20—Dedicated Collections.

The Federal Retirement Thrift Investment Board, an independent Government agency, administers the Thrift Savings Plan (TSP) Fund. The TSP Fund includes the C-Fund, S-Fund, F-Fund, I-Fund, and G-Fund. These financial statements exclude this fund because the CSRS and FERS employees own its assets.

Treasury securities held in the G-Fund are included and classified as Treasury securities held by the public. FERS employees may contribute up to 14 percent of base pay to the plan, which the Government matches up to 5 percent. CSRS employees may contribute up to 9 percent of base pay with no Government match.

The G-Fund held \$56.4 billion and \$51.1 billion in nonmarketable Treasury securities on September 30, 2004, and 2003, respectively. The Federal Government's related liability is included in total Federal debt securities held by the public and accrued interest in the balance sheets.

Health Benefits

The post-retirement civilian health benefit liability is an estimate of the Government's future cost of providing post-retirement health benefits to current employees and retirees. Although active and retired employees pay an insurance premium under the Federal Employees Health Benefits Program, these premiums cover only a portion of the costs. The OPM actuary applies economic assumptions to historical cost information to estimate the liability, which is then reduced by certain operating costs and premiums received during the year.

Other Benefits

One of the largest other employee benefits is the Federal Employee Group Life Insurance Program. Employee and annuitant contributions and interest on investments fund a portion of this liability. The actuarial life insurance liability is the expected present value of future benefits to pay to, or in behalf of, existing Life Insurance Program participants. The OPM actuary uses interest rate, inflation, and salary increase assumptions that are consistent with the pension liability.

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The National Defense Authorization Act of 2004 (P.S. 108-136) amended the MRF to provide a phase-out of the offset to military pay due to receipt of VA disability compensation for certain DOD retirees who qualify for both retirement and disability pay—referred to as concurrent receipt—and reformed basic pay rates on which retired pay is based. The \$81 billion increase in pension liability for military plan amendments is primarily the result of the concurrent receipt provision discussed above.

Projected revenues into the MRF come from three sources: interest earnings on MRF assets, monthly DOD contributions, and annual contributions from the Treasury Department. Beginning with fiscal year 2005, the contributions made by Treasury will be increased by an amount equal to the annual expense for the new concurrent receipt provision of the Fiscal Year 2004 National Defense Authorization Act.

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to the Departments of the Army, Navy, Air Force, and Marine Corps. This system includes nondisability retirement pay, disability retirement pay, and retirement pay for reserve service and survivor annuity programs.

Military personnel (Army, Navy, Marine Corps, and Air Force) who remain on active duty for 20 years or longer are eligible for retirement. There are three different retirement systems that are currently being used by the

military: Final Pay, High-3 Year Average, and the Military Retirement Reform Act of 1986 (REDUX). The date each individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system.

Final Pay Retirement System: Final Pay applies to individuals who entered the Service before September 8, 1980. Each year of service is worth 2.5 percent towards the retirement multiplier. The longer an individual stays on active duty, the higher the multiplier and the higher the retirement income, up to the maximum of 75 percent. This multiplier is applied against the final basic pay of the individual's career. A cost of living adjustment (COLA) is given annually based on the increase in the CPI.

High-3 Year Average Retirement System: High-3 Year Average applies to members who first entered the Service after September 8, 1980, but before August 1, 1986. It also applies to individuals who entered on or after August 1, 1986, who do not elect the REDUX retirement system with the \$30,000 career status bonus (CSB) at their 15th year of service. The High-3 Year Average calculation is similar to the Final Pay except the High-3 Year Average uses the multiplier against basic pay for the highest 36 months of the individual's career. A COLA is given annually based on the increase in the CPI.

CSB/REDUX Retirement System: The REDUX applies to those who entered the Service on or after August 1, 1986, and who elected to receive the \$30,000 CSB at their 15th year of service. Under the CSB/REDUX retirement system, each of the first 20 years of service is worth 2 percent towards the retirement multiplier and each year after 20 years of service is worth 3.5 percent. The retirement multiplier under this retirement system is applied against the average basic pay for the highest 36 months of the individual's basic pay. A COLA is given annually based on the increase in the CPI minus 1 percent.

On October 30, 2000, the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law No. 106-398) was signed into law. This law extended participation in the TSP to members of the uniformed services. Members may contribute from their pay, and their contributions and earnings attributable to their TSP belongs to them even if they do not serve the 20 or more years ordinarily required to receive retirement pay.

Health Benefits

Military benefits entitle retirees and their dependents to health care in military medical facilities if a facility can provide the needed care. Until they reach age 65, military retirees and their dependents also are entitled to be reimbursed for the cost of health care from civilian providers. A premium is charged to enroll in DOD's civilian care program. In addition, there are deductible and copayment requirements for civilian care. Medicare, and since fiscal year 2002, Tricare as secondary payer, covers military retirees after they reach 65 years of age.

Military retiree health care figures include the cost of education and training, staffing, buildings and equipment, as well as the operation and maintenance of medical facilities. They also include claims paid to civilian providers and the cost of administering the program.

Chapter 56 of Title 10, United States Code created the DOD Medicare-Eligible Retiree Health Care Fund effective October 1, 2002. The purpose of this fund is to account for the health benefits of Medicare-eligible members and former members of the DOD Uniformed Services who are entitled to retirement or retainer pay, and their eligible dependents who are Medicare eligible.

In addition to the health care benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. VA recognizes the medical care expenses in the period the medical care services are provided. For the time period 2000-2004, the average medical cost per year was \$22 billion.

Compensation and Burial Benefits

The Government compensates disabled veterans and their survivors. Veterans compensation is payable as a disability benefit or a survivor's benefit. Entitlement to compensation depends on the veteran's disabilities having been incurred in, or aggravated during, active military service; death while on duty; or death resulting from service-connected disabilities, if not in active duty.

Burial benefits include a burial and plot or interment allowance payable for a veteran who, at the time of death, is qualified to receive compensation or a pension, or whose death occurred in a VA facility.

The liability for veteran's compensation and burial benefits payable decreased by \$30 billion in fiscal year 2004 and increased by \$105.6 billion in fiscal year 2003. The primary factors contributing to this fluctuation were changes in interest rates and other actuarial assumptions.

Veterans Compensation and Burial Benefits as of September 30

(In billions of dollars)	2004	2003
Veterans.....	775.3	815.0
Survivors	146.2	136.6
Burial benefits	3.3	3.2
Total compensation and burial benefits payable	<u>924.8</u>	<u>954.8</u>

Other Benefits

Veterans insurance includes the following programs:

- United States Government Life Insurance, established in 1919 to handle new issues and the conversion of World War I Risk Term Insurance.
- National Service Life Insurance, established in 1940 to meet the needs of World War II service personnel.
- Veterans Special Life Insurance, established in 1951 for Korean veterans who did not have service-connected disabilities.
- Service-Disabled Veterans Insurance, established in 1951 for veterans with service-connected disabilities.
- Veterans Reopened Insurance, which established a 1-year reopening in 1965 of National Service Life Insurance for certain disabled World War II and Korean veterans.

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amounts of future payments for pension benefits as of September 30, 2004, and 2003 were \$102.2 and \$102.7 billion, respectively.

Note 12. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2004	2003
Department of Energy:		
Environmental management baseline estimates.....	112.8	116.6
Active and surplus facilities—other programs	30.4	27.5
Long-term stewardship	17.5	18.2
All other energy environmental liabilities	21.0	21.1
Total Department of Energy	181.7	183.4
Department of Defense:		
Environmental restoration	37.0	34.1
Environmental corrective other	1.0	1.0
Base realignment and closure	4.0	4.5
Disposal of Weapon Systems Program	22.3	21.9
All other Defense environmental liabilities	-	-
Total Department of Defense	64.3	61.5
All other agencies	3.2	5.0
Total environmental and disposal liabilities	249.2	249.9

During World War II and the Cold War, DOE developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities.

At all the sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated areas and buildings, and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

Of those environmental liabilities, this report presents only cleanup costs from Federal operations known to result in hazardous and radioactive waste that the Government is required to clean up by Federal, State, or local statutes and/or regulations. Some of these statutes are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); the Resource Conservation and Recovery Act; and the Nuclear Waste Policy Act of 1982, which provides for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel; and Public Law No. 105-204, which requires a plan for the conversion of depleted uranium hexafluoride.

DOE is responsible for managing the legacy of contamination from the nuclear weapons complex. The environmental management baseline estimate includes projections of the technical scope, schedule, and costs for environmental restoration; managing nuclear materials waste treatment, storage and disposal activities; and post-cleanup monitoring and stewardship at each installation. The baseline estimate includes costs for related activities such as landlord responsibilities, program management, and legally prescribed grants for participation and oversight by Native American tribes, regulatory agencies, and other stakeholders. Active and surplus facilities represent anticipated remediation costs for those facilities that are conducting ongoing operations but ultimately will require stabilization, deactivation, and decommissioning.

Estimated cleanup costs at sites for which there are no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. Significant projects not included are:

- Nuclear explosion test areas (e.g., Nevada test site).
- Large surface water bodies (e.g., Clinch and Columbia Rivers).
- Most ground water (even with treatment, future use will be restricted).

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental management program will depend on a number of fundamental technical and policy choices to be made in the future. The sites and facilities could be restored to a pristine condition suitable for any desirable use, or could be restored to a point where they pose no near-term health risks. Achieving pristine conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled.

DOD is required to clean up contamination resulting from waste disposal practices, leaks, spills, and other activities that have created a public health or environmental risk. DOE is also required to recognize closure and post closure costs for its general property, plant, and equipment and environmental corrective action costs for current operations. DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as defense sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines). DOD is responsible, as well, for training range and other nonrange unexploded ordnance cleanup.

DOD is required by law to adhere to CERCLA and Superfund Amendment and Reauthorization Act to clean up contamination resulting from past waste disposal practices, leaks, spills, and other activities which have created a risk to public health or the environment. The Army is DOD's executive agent for cleaning up contamination at sites formerly used by DOD. CERCLA requires the Army to cleanup contamination in coordination with regulatory agencies, other responsible parties, and current property owners.

DOD is currently using two independently validated estimating models, in addition to engineering estimates, to report its environmental liabilities. The models are the Remedial Action Cost Engineering Requirements and the Department of Navy Cost to Complete module. These two methods of valuation are used in this note's table.

DOD has not identified any unamortized portion of the estimated total cleanup cost associated with general property, plant, and equipment. The department's financial management regulation requires the unamortized cleanup cost associated with property, plant, and equipment to be recognized. The department is working with the military departments to ensure the regulation is properly implemented.

Note 13. Benefits Due and Payable

These amounts are the benefits owed to program recipients or medical service providers as of the fiscal yearend that have not been paid. For a description of the programs, see the Stewardship Responsibilities section under Stewardship Information.

Benefits Due and Payable as of September 30

(In billions of dollars)	2004	2003
Federal Old-Age and Survivors Insurance	37.1	35.9
Grants to States for Medicaid	19.3	17.8
Federal Hospital Insurance (Medicare Part A)	15.0	15.0
Federal Supplementary Medical Insurance (Medicare Part B).....	14.8	15.3
Federal Disability Insurance	12.8	12.0
Supplemental security income.....	1.8	1.5
Unemployment insurance	1.1	1.5
Other benefits	1.0	1.0
Total benefits due and payable.....	<u>102.9</u>	<u>100.0</u>

Note 14. Other Liabilities

Other Liabilities as of September 30

(In billions of dollars)	2004	2003
Insurance Programs:		
Pension Benefit Guaranty Corporation	60.9	44.5
All other insurance programs	6.8	25.1
Accrued wages and benefits	38.2	44.0
Deferred revenue	25.0	29.2
Gold certificates	10.9	10.9
Other actuarial liabilities	10.4	9.8
Accrued grant liability	10.2	3.7
Exchange stabilization fund	9.4	9.2
Other debt	9.1	8.6
Deposit funds and undeposited collections	8.5	8.2
D.C. pension liability	8.4	8.3
Custodial liabilities	6.5	5.2
Other accrued liability	6.0	5.8
Other miscellaneous liabilities.....	50.0	15.5 ¹
Total other liabilities.....	<u>260.3</u>	<u>228.0¹</u>

¹ Restated – See Note 17.

Pension Benefit Guaranty Corporation (PBGC) insures pension benefits of participants in covered defined benefit pension plans. As a wholly owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the general fund of the Treasury or assets of the Government generally. As of September 30, 2004, PBGC had liabilities of more than \$60 billion for pension benefits, and its total liabilities exceeded its total assets by \$23.5 billion. In addition, as discussed in Note 18, PBGC reported reasonably possible contingent losses of about \$96 billion.

All other insurance programs include bank and savings and loan institutions (thrifts) deposit insurance and life and medical insurance. They also include insurance against damage to property (home, crops, and airplanes) caused by perils such as flooding and other natural disasters, risk of war, and insolvency.

The following are descriptions of some of the other categories (i.e., those over \$5 billion) classified as other liabilities:

- Accrued wages and benefits consist of the estimated liability for civilian and military salaries and wages earned but unpaid. They also include annual leave and other employee benefits that have been earned but are unpaid.
- Deferred revenue refers to revenue received but not yet earned, such as payments received in advance from outside sources for future delivery of products or services.
- Gold certificates include monetized portions of gold and certificates deposited in FRBs.
- Other actuarial liabilities includes the accrual of amounts recorded by the administering agencies for the actuarial liability of future benefit payments.
- Accrued grant liability represents the advances related to grant program funds provided primarily to State and local governments, as well as universities and nonprofit organizations.
- Exchange stabilization fund includes SDR certificates issued to the FRBs and allocations from the IMF.
- Other debt includes Government obligations, whether secured or unsecured, not included in public debt.

- Deposit funds are deposits held and maintained by the Government on behalf of a third party and include unclassified deposited funds that are amounts offsetting undeposited collections, as well as funds deposited in clearing accounts and suspense accounts that await disposition or reclassification.
- Other miscellaneous liabilities include amounts accrued for loss contingencies, mainly from DOL, DOE, DOI and FDIC, and other liabilities from the Department of Transportation (DOT), VA, USDA, and Treasury.

Note 15. Collections and Refunds of Federal Revenue

Collections of Federal Revenue for the Year Ended September 30, 2004

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2004	2003	2002	Prior Years
Individual income tax and tax withholdings.....	1,695.3	1,128.1	541.0	13.2	13.0
Corporation income taxes	230.4	150.6	67.3	1.1	11.4
Estate and gift taxes	25.6	0.1	16.9	1.1	7.5
Excise taxes	71.8	52.7	18.6	0.5	-
Customs duties	21.0	21.0	-	-	-
Unemployment taxes	36.9	20.7	9.0	7.2	-
Railroad retirement taxes	4.5	3.4	1.1	-	-
Federal Reserve earnings.....	19.7	13.1	6.6	-	-
Fines, penalties, interest, and other taxes	3.7	3.6	0.1	-	-
Subtotal	<u>2,108.9</u>	<u>1,393.3</u>	<u>660.6</u>	<u>23.1</u>	<u>31.9</u>
Less: Amounts collected for non-Federal entities	(0.8)				
Total	<u><u>2,108.1</u></u>				

Collections of Federal Revenue for the Year Ended September 30, 2003

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2003	2002	2001	Prior Years
Individual income tax and tax withholdings.....	1,670.2	1,098.0	547.9	13.1	11.2
Corporation income taxes	194.3	124.3	59.5	0.9	9.6
Estate and gift taxes	22.8	0.1	18.7	1.3	2.7
Excise taxes	69.6	50.9	18.2	0.1	0.4
Customs duties	20.2	20.2	-	-	-
Unemployment taxes	31.4	23.7	7.7	-	-
Railroad retirement taxes	4.4	3.3	1.1	-	-
Federal Reserve earnings.....	21.9	16.0	5.9	-	-
Fines, penalties, interest, and other taxes	2.2	1.5	0.7	-	-
Subtotal	2,037.0	1,338.0	659.7	15.4	23.9
Less: amounts collected for non-Federal entities	(0.4)				
Total	2,036.6				

Treasury is the Government's principal revenue-collecting agency.

Collections of individual income tax and tax withholdings consist of FICA/SECA and other taxes including payroll taxes collected from other agencies.

Individual income and tax withholdings include refunds and Earned Income Tax Credit (EITC) payments. EITC is a refundable credit for taxpayers who work and whose earnings fall below the established ceiling. A refundable credit is first used to offset any individual taxes owed; any remaining amounts are issued to the taxpayer. In fiscal year 2004, the IRS issued \$38.2 billion in EITC refunds; \$33 billion were applied to advance EITC, and an additional \$5.2 billion of the EITC credits were applied to reduce taxpayer liability. (In fiscal year 2003, the IRS issued \$31.8 billion in EITC refunds; \$63 million were applied to advance EITC, and an additional \$5 billion of the EITC credits were applied to reduce taxpayer liability.) All of these EITC amounts are included in gross cost in the Statements of Net Cost as a component of Treasury. Amounts reported for corporate income taxes in tax year 2004 include corporate taxes of \$7 billion for tax year 2004. (Similarly, amounts reported for corporate income taxes collected in fiscal year 2003 include corporate taxes of \$5 billion for tax year 2003.) Taxes collected are reported in the Revenue section of the Statements of Operations and Changes in Net Position, and are presented on a modified cash basis. On the other hand, collections reported in the table in Note 15—Collections and Refunds of Federal Revenue are reported on a gross cash basis.

The Statements of Operations and Changes in Net Position reports total revenue of \$1,912.7 billion and \$1,796 billion for fiscal years 2004 and 2003, respectively. The difference between collections, net of refunds, and total revenue is primarily due to changes in taxes receivable, imputed revenue for the EITC and Child Tax Credit, other collecting entities, and other earned revenue.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2004

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2004	2003	2002	Prior Years
Individual income tax and tax withholdings	230.1	0.6	210.0	12.6	6.9
Corporation income taxes	46.6	1.5	8.9	6.7	29.5
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	0.9	0.3	0.3	0.1	0.2
Estate and gift taxes	0.8	-	0.2	0.3	0.3
Custom duties	1.0	1.0	-	-	-
Total	<u>279.5</u>	<u>3.4</u>	<u>219.5</u>	<u>19.7</u>	<u>36.9</u>

Federal Tax Refunds Disbursed for the Year Ended September 30, 2003

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			Prior Years
		2003	2002	2001	
Individual income tax and tax withholdings	232.4	0.6	211.6	13.1	7.1
Corporation income taxes	66.1	2.0	11.1	10.8	42.2
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	0.9	0.2	0.3	0.1	0.3
Estate and gift taxes	0.9	-	0.2	0.4	0.3
Custom duties	0.7	0.7	-	-	-
Total	<u>301.1</u>	<u>3.5</u>	<u>223.3</u>	<u>24.4</u>	<u>49.9</u>

Note 16. Unreconciled Transactions Affecting the Change in Net Position

The reconciliation of the Change in Net Position requires that the difference between ending and beginning net position equals the excess of revenues over net cost, plus or minus prior period adjustments.

The unreconciled transactions needed to bring the change in net position into balance amounted to a net value of \$3.4 billion and \$24.5 billion for the years ended September 30, 2004, and 2003, respectively.

The three primary factors affecting this out-of-balance situation are:

- Improper recording of intragovernmental transactions by agencies.
- Transactions affecting balance sheet assets and liabilities not identified properly by agencies as prior period adjustments.
- Timing differences and errors in reporting transactions.

The Federal financial community considers the identification and accurate reporting of these unreconciled transactions a priority.

Note 17. Change in Accounting Principle and Prior Period Adjustments

Change in Accounting Principle and Prior Period Adjustments to Fiscal Years 2004 and 2003

(In billions of dollars)	Increases to Net Position	
	2004	2003
Change in Accounting Principle:		
Department of Defense	-	383.1
Prior Period Adjustments:		
Department of Defense	-	10.5

Change in accounting principle for fiscal year 2003 consists of a \$383.1 billion net adjustment by DOD, resulting from changes in accounting principle that eliminated the category of national defense property, plant, and equipment in accordance with SFFAS No. 23, and included these assets in property, plant, and equipment for \$316.6 billion and inventory for \$66.5 billion in the balance sheet.

Prior period adjustments for fiscal 2003 consist of \$11.5 billion due to inventory valuation changes and errors and \$1 billion of undistributed disbursements from other liabilities to cumulative results of operations by DOD.

Note 18. Contingencies

Financial Treatment of Loss Contingencies

Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in this note. For an overview of the standards that provide criteria for how Federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability,¹ see the following table.

¹ In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

Likelihood of future outflow or other sacrifice of resources.	Loss amount can be reasonably measured.	Loss range can be reasonably measured.	Loss amount or range cannot be reasonably measured.
Probable. Future confirming event(s) are more likely to occur than not. ²	Accrue the liability. Reported on Balance Sheet & Statements of Net Cost.	Accrue liability of best estimate or minimum amount in loss range if there is no best estimate, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Reasonably possible. Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated loss amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Remote. Possibility of future event(s) occurring is slight.	No disclosure.	No disclosure.	No disclosure.

The Government is subject to loss contingencies which include litigation cases. These loss contingencies arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for litigation described in the next paragraph.

Numerous litigation cases are pending involving, among many other matters, access to and participation in farm programs, spent nuclear fuel, North American Free Trade Agreement arbitrations, individual Native American money accounts and tribal accounts revenues. It is difficult to predict the outcome of litigation, and therefore, the ultimate total costs cannot be reasonably estimated at this time.

A Federal District Court ruled that DOE's plan to reclassify a portion of its radioactive waste violated provisions of the Nuclear Waste Policy Act of 1982. On November 5, 2004, the 9th U.S. Circuit Court of Appeals dismissed the lawsuit. DOE believes that additional legal challenges are possible; however, cost impacts to the waste program are unlikely.

In addition to litigation, DOD has other contingencies for the chemical demilitarization nonstockpile disposal (cost of destroying buried chemical munitions) and environmental restoration.

² For loss contingencies related to litigation, probable is defined as a future confirming event(s) that are likely to occur.

Loss Contingencies as of September 30

(In billions of dollars)	2004	2003
Insurance Contingencies:		
Pension Benefit Guaranty Corporation	96.0	85.6
Federal Deposit Insurance Corporation	0.4	5.9
Other insurance programs	0.8	1.0
Total insurance contingencies	<u>97.2</u>	<u>92.5</u>
Civil Litigation, Claims, and Assessments:		
Department of Homeland Security	-	3.9
Department of Defense	-	3.0
Department of Energy	3.0	-
Department of the Interior	0.4	0.4
Other civil contingencies	0.6	1.5
Total civil litigation, claims, and assessments	<u>4.0</u>	<u>8.8</u>
All Other Contingencies:		
Department of Defense	9.8	10.3
Other contingencies	-	0.8
Total other loss contingencies	<u>9.8</u>	<u>11.1</u>

Note 19. Commitments

The Government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders as shown in the following table. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The Government has other contractual commitments that may require future use of financial resources. For example, the Government has callable subscriptions in the Multilateral Development Banks (MDB), which are autonomous international financial entities that finance economic and social development projects in developing countries. Callable capital resembles promissory notes to honor MDB debts if the MDB cannot otherwise meet its obligations through its other available resources. MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. Treasury officials do not anticipate any calls on MDB subscriptions. To date, there has never been a call on this capital for any of the major MDBs.

Commitments as of September 30

	Capital Leases	Operating Leases	Capital Leases	Operating Leases
(In billions of dollars)	2004		2003	
General Services Administration	0.3	22.1	0.3	19.9
U.S. Postal Service	0.6	9.6	1.0	8.7
Department of Justice	-	-	0.1	6.6
Department of Health and Human Services.....	-	1.0	0.1	1.9
Department of Veterans Affairs	-	0.1	-	1.6
Other long-term leases	1.0	3.8	1.1	5.4
Total long-term leases	<u>1.9</u>	<u>36.6</u>	<u>2.6</u>	<u>44.1</u>

Undelivered Orders

	2004	2003
Department of Defense	185.6	167.1
Department of Housing and Urban Development..	71.8	76.8
Department of Transportation	68.0	63.6
Department of Health and Human Services.....	67.4	68.4
Department of Education	46.4	40.7
Department of the Treasury	39.1	47.2
Department of Homeland Security	16.7	15.9
Department of Agriculture	14.0	24.6
U.S. Agency for International Development	11.4	9.0
Department of Energy	10.1	9.9
Department of Justice	9.9	11.0
Environmental Protection Agency	9.7	10.5
Department of State	7.1	6.0
National Science Foundation	6.9	6.3
General Services Administration	6.7	7.4
Department of Labor	6.0	7.0
Other undeliverable orders	19.5	24.3
Total undelivered orders	<u>596.3</u>	<u>595.7</u>

Other Commitments

	2004	2003
Callable capital subscriptions for multi-lateral development banks	61.7	61.5
Department of Agriculture	52.0	23.0
Department of Energy	14.5	-
Department of the Treasury	8.5	-
Tennessee Valley Authority	8.0	5.0
National Oceanic and Atmospheric Administration satellites and weather systems ..	7.7	7.0
Department of Transportation	4.7	4.5
Real property activities	-	3.4
All other programs	-	2.6
Total other commitments	<u>157.1</u>	<u>107.0</u>

Other Commitments and Risks

The U.S. Government is a party to major treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and arms that may involve financial obligations or give rise to possible exposure to losses. A comprehensive analysis to determine any such financial obligations or possible exposure to loss and their related effect on the consolidated financial statements of the U.S. Government has not yet been performed.

In addition, the United States Government has entered into other agreements that could potentially require claims on Government resources in the future. Examples include war risk and terrorism risk insurance.

Note 20. Dedicated Collections

Dedicated Collections as of September 30*

	Revenue		Expenses		Trust Fund Net Assets		Less Intra-governmental Net Assets		Consolidated Assets	
(In billions of dollars)	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Federal Old-Age and Survivors Insurance Trust Fund	551.5	537.3	412.8	397.9	1,474.3	1,334.5	1,472.5	1,332.5	1.8	2.0
Civil Service Retirement and Disability Fund	82.1	76.7	90.5	102.7	641.7	611.5	641.4	611.2	0.3	0.3
Federal Hospital Insurance Trust Fund (Medicare Part A)	179.7	175.3	169.0	154.2	287.8	257.9	287.0	256.4	0.8	1.5
Military Retirement Fund	42.4	41.6	135.7	44.5	188.0	182.6	188.0	182.6	-	-
Federal Disability Insurance Trust Fund ..	87.9	86.0	75.3	69.9	187.4	175.7	185.3	173.7	2.1	2.0
Unemployment Trust Fund	39.8	34.0	41.7	53.8	47.9	50.4	46.3	49.1	1.6	1.3
Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)	129.7	109.5	134.2	124.3	52.4	30.3	51.1	28.9	1.3	1.4
Medicare-Eligible Retiree Health Care Fund (MERHCF)	22.5	22.8	30.5	68.6	38.6	18.5	38.6	18.5	-	-
Highway Trust Fund	34.7	33.7	37.3	38.6	13.6	16.1	13.6	16.1	-	-
Railroad Retirement Trust Fund	9.2	9.2	9.1	8.9	5.1	4.9	5.0	4.9	0.1	-
Airport and Airway Trust Fund	9.7	9.3	10.8	9.7	10.7	11.2	10.7	10.5	-	0.7
Hazardous Substance Superfund	1.4	0.7	1.5	1.5	2.4	2.5	2.4	2.5	-	-
Black Lung Disability Trust Fund	0.5	0.5	1.0	1.0	0.1	-	-	-	0.1	-

*By law, certain expenses (costs) related to the administration of the above funds are not charged to the funds and are financed by other sources.

The table above depicts selected trust funds that have been chosen based on their financial activity. Additionally, the Federal Government has many other dedicated collections and trust funds.

In the Federal budget, the term “trust fund” means only that the law requires a particular fund be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund’s resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity.

Trust fund net assets represent the unexpended balance from all sources of receipts and amounts due the trust funds, regardless of source, including related Governmental transactions. These are transactions between two different entities within the Government (for example, monies received by one entity of the Government from another entity of the Government).

Intragovernmental net assets are comprised of investments in Federal debt securities, related accrued interest, and fund balances with Treasury. These amounts were eliminated in preparing these financial statements.

Consolidated assets represent only the net assets from activity with individuals and organizations outside the Government. All related Governmental balances are removed to present the Government’s position as a whole.

Most of the trust fund assets are invested in intragovernmental debt holdings. These securities require redemption if a fund’s disbursements exceed its receipts. Redeeming these securities will increase the Government’s financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof.

Depicted below is a description of all the funds included in the table Dedicated Collections as of September 30, which also includes the names of the Government agencies that administer each particular fund. For detailed information concerning liabilities, revenues by type, program expenses, other expenses, and other financial sources, as well as other changes in fund balance, please refer to the financial statements of the corresponding administering agencies. For information on the actuarial and other liabilities associated with the funds in this report, see Note 11—Federal Employee and Veteran Benefits Payable and Note 13—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

This trust fund provides assistance and protection against the loss of earnings due to retirement or death in the form of money payments. SSA administers the Federal Old-Age and Survivors Insurance Trust Fund.

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Treasury securities, Federal agencies’ payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits provide the fund with additional income. The law establishing the Federal Old-Age and Survivors Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 401.

Civil Service Retirement and Disability Fund

The Civil Service Retirement and Disability Fund covers two Federal civilian retirement systems: CSRS—for employees hired before 1984, and FERS—for employees hired after 1983. OPM administers the CSRS and the FERS systems. The laws establishing the Civil Service Retirement and Disability Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8334-8348. Funding sources include:

- Federal civilian employees’ contributions.
- Agencies’ contributions on behalf of employees.
- Appropriations.
- Interest earned on investments in Treasury securities.

Federal Hospital Insurance Trust Fund (Medicare Part A)

The Federal Hospital Insurance Trust Fund finances the Hospital Insurance program (Medicare Part A). This program funds the cost of inpatient hospital and related care for individuals age 65 or older who meet certain insured status requirements, and eligible disabled people. HHS administers the program.

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by Federal agencies. It also receives income from interest earnings on Treasury securities and a portion of income taxes collected on Social Security benefits. The law establishing the Federal Hospital Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395i.

Military Retirement Fund

The Military Retirement Fund provides retirement benefits for Army, Navy, Marine Corps, and Air Force personnel and their survivors. The fund is financed by DOD contributions, appropriations, and interest earned on investments in Federal debt securities. DOD administers the Military Retirement Fund. The laws establishing the Military Retirement Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 10 U.S.C. § 1461-1467.

Federal Disability Insurance Trust Fund

The Federal Disability Insurance Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of money payments. SSA administers the Federal Disability Insurance Trust Fund.

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The fund also receives income from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and a portion of income taxes collected on Social Security benefits. The law establishing the Federal Disability Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 401.

Unemployment Trust Fund

The Unemployment Trust Fund protects workers who lose their jobs. The program is administered through a unique system of Federal and State partnerships, established in Federal law, but executed through conforming State laws by State officials. DOL administers the Federal operations of the program.

Taxes on employers primarily fund the Unemployment Trust Fund. However, interest earned on investments in Treasury securities also provides income to the fund. Appropriations have supplemented the fund's income during periods of high and extended unemployment. The law establishing the Unemployment Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1104.

Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)

The Federal Supplementary Medical Insurance Trust Fund finances the Supplementary Medical Insurance program (Medicare Part B) that provides supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A. HHS administers the program.

Medicare Part B financing is not based on payroll taxes; it is based on monthly premiums and income from the general fund of the Treasury. The law establishing the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395t.

Medicare-Eligible Retiree Health Care Fund

The DOD Medicare-Eligible Retiree Health Care Fund, established by 10 U.S.C. § 1111, finances and pays the liabilities under the DOD retiree health care programs for Medicare-eligible beneficiaries. Such beneficiaries include qualifying members, former members and dependents of the Uniformed Services. The assets of the fund are comprised of any amounts appropriated to the fund, payments to the fund authorized by 10 U.S.C. § 1116, and interest on investments authorized by 10 U.S.C. § 1117.

Highway Trust Fund

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides Federal grants to States for highway construction, certain transit programs and related transportation purposes. DOT administers programs financed by the Highway Trust Fund. The law establishing the Highway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9503. Funding sources include earmarked taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles.

Railroad Retirement Trust Fund

The Railroad Retirement Trust Fund provides annuities and survivor benefits to eligible railroad employees and their survivors. The fund also pays disability annuities based on total or occupational disability. Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement Survivor Benefit program. The law establishing the Railroad Retirement Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 45 U.S.C. § 231n.

During fiscal year 2002, RRSIA, enacted on December 21, 2001, provided several changes in benefits and financing provisions for employees and widow(er)s. RRSIA also created NRRIT to administer the new fund, which is allowed to invest in Federal debt securities as well as other investments outside of the U.S. Government (see Railroad Retirement in the Stewardship Information section).

Airport and Airway Trust Fund

The Airport and Airway Trust Fund provides for airport improvement and airport facilities maintenance. It also funds airport equipment, research, and a portion of the Federal Aviation Administration's administrative operational support. DOT administers the Airport and Airway Trust Fund. The law establishing the Airport and Airway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9502. Funding sources include:

- Taxes received from transportation of persons and property in the air, as well as fuel used in non-commercial aircraft.
- International departure taxes.
- Interest earned on investments in Treasury securities.

Hazardous Substance Superfund

The Hazardous Substance Superfund was authorized to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. The Environmental Protection

Agency (EPA) administers the fund. The law establishing the Hazardous Substance Superfund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9507. Funding sources include:

- Excise taxes collected on petroleum, chemicals, and imported substances (expired in 1995).
- Environmental taxes from corporations with alternative minimum taxable income in excess of \$2 million (expired in 1995).
- Fines, penalties, and cost recoveries from responsible parties.
- Appropriations.
- Interest earned on investments in Treasury securities.

Black Lung Disability Trust Fund

The BLDTF provides benefits to coal miners who are totally disabled due to pneumoconiosis (black lung disease). It also covers surviving dependents of miners who died due to pneumoconiosis.

Excise taxes on coal mine operators, based on the sale of coal, partially fund black lung disability payments as well as related administrative and interest costs. Intragovernmental advances to the BLDTF, which must be repaid with interest, fund the shortfall. DOL administers the BLDTF. The law establishing the BLDTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9501.

Note 21. Indian Trust Funds

The Indian Trust Funds differ from other dedicated collections reported in Note 20—Dedicated Collections. DOI has responsibility for the assets held in trust on behalf of American Indian tribes and individuals.

DOI, through the Office of the Special Trustee's (OST's) Office of Trust Funds Management, holds trust funds in accounts for Indian tribes. It maintains approximately 1,400 accounts for Tribal and Other Special Trust Funds (including the Alaska Native Escrow Fund).

The balances that have accumulated in the Tribal and Other Special Trust Funds have resulted from judgment awards, settlements of claims, land use agreements, royalties on natural resource depletion, and other proceeds derived directly from trust resources and investment income.

The trust fund balances included in the Trust Funds Held for Indian Tribes and Other Special Trust Funds contain two categories: trust funds held for Indian tribes (considered non-Federal funds) and trust funds held by DOI for future transfer to a tribe upon satisfaction of certain conditions or where the corpus of the fund is non-expendable (considered Federal funds).

The table below depicts the U.S. Government as trustee for Indian Trust Funds Held for Indian Tribes and Other Special Trust Funds. The trust funds considered Federal funds are included in DOI's financial statements.

U.S. Government as Trustee for Indian Trust Funds Held for Indian Tribes and Other Special Trust Funds
Statement of Changes in Trust Fund Balances as of September 30
(Unaudited)

(In millions of dollars)	2004	2003
Receipts	413.7	378.5
Disbursements	318.5	354.7
Receipts in excess of disbursements.....	95.2	23.8
Trust fund balances, beginning of year.....	2,880.1	2,856.3
Trust fund balances, end of year.....	2,975.3	2,880.1

OST also maintains about 260,000 open Individual Indian Monies (IIM) accounts. The IIM fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. The IIM account-holders realize receipts primarily from royalties on natural resource depletion, land use agreements, and enterprises that have a direct relationship to trust fund resources and investment income. Funds related to the IIM Trust Fund are included in the following table.

U.S. Government as Trustee for Indian Trust Funds Held for Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances as of September 30
(Unaudited)

(In millions of dollars)	2004	2003
Receipts	204.6	194.2
Disbursements	221.0	192.5
Receipts in excess of disbursements.....	(16.4)	1.7
Trust fund balances, beginning of year.....	413.1	411.3
Trust fund balances, end of year.....	396.7	413.0

The amounts presented in the above two tables were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. Receivables and payables are not recorded, and investment premiums and discounts are not amortized in the Trust Funds Held for Indian Tribes and Other Special Trust Funds. Receipts are recorded when received and disbursements when paid, and investments are stated at historical cost. The only basis of accounting difference between the Trust Funds Held for Indian Tribes and Other Special Trust Funds and the IIM Trust Fund is that the latter records the receivables and payables related to accrued interest and dividends when earned, including amortization of investment discounts and premiums, and investments are stated at amortized cost.